

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Mackinac County Road Commission		County Mackinac County	
Fiscal Year End December 31, 2006		Opinion Date May 15, 2007		Date Audit Report Submitted to State June 19, 2007			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

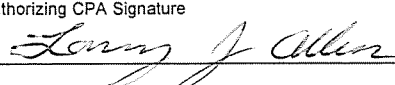
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input checked="" type="checkbox"/>	Report on Internal Control	
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC			Telephone Number (810) 984-3829	
Street Address 1979 Holland Avenue			City Port Huron	State MI
			Zip 48060	
Authorizing CPA Signature 		Printed Name Larry J. Allen		License Number 1101008117

**MACKINAC COUNTY ROAD COMMISSION**  
**A Component Unit of Mackinac County, Michigan**

**ANNUAL FINANCIAL REPORT**  
**with Supplementary Information**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

Stewart,  
Beauvais  
& Whipple P.C.

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CERTIFIED PUBLIC ACCOUNTANTS



**MACKINAC COUNTY ROAD COMMISSION**  
**A Component Unit of Mackinac County, Michigan**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners  
of Mackinac County  
St. Ignace, Michigan

We have audited the accompanying basic financial statements of the Road commission of Mackinac County, Michigan, a component unit of Mackinac County, Michigan as of December 31, 2006 and for the year then ended. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission of Mackinac County, Michigan, as of December 31, 2006, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated May 15, 2007, on our consideration of the Road Commission of Mackinac County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-6 is not required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as supplementary financial data in the Table of Contents is presented for purpose of additional analysis and is not a required part of the basic financial statements of the Road Commission of Mackinac County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

May 15, 2007

# **MACKINAC COUNTY ROAD COMMISSION**

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## **A Component Unit of Mackinac County, Michigan**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Mackinac County Road Commission (the "Road Commission"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2006. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to provide a basis of understanding of the Mackinac County Road Commission's basic statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

#### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Road Commission finances in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Road Commission assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

#### **Governmental Financial Statements**

Unlike the government-wide financial statements, governmental financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the year. Such information may be useful in evaluating the Road Commission's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare to the information presented for governmental funds with similar information presented for the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Road Commission's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and the government-wide financial statements.

The Mackinac County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10-25 of this report.

## FINANCIAL HIGHLIGHTS

### Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$28,803,823 at the end of the year.

The net assets are separated into three major components: invested in capital assets net of related debt, which amounted to \$26,302,809 or 91% of net assets, restricted net assets of \$796,550 or 3% of net assets, and finally, unrestricted net assets of \$1,704,464 or 6%. The invested in capital assets of the Road Commission reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure) less any related debt not funded by Townships. The Road Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The restricted net assets are the net assets that resulted from Primary and Local Road activities that are restricted by the Michigan Department of Transportation to be used on the respective Primary and Local roads. The remaining balance of unrestricted net assets may be used to meet the Road Commission's on-going obligations to citizens and creditors.

At the end of the current year, the Road Commission is able to report positive balances in all three categories (invested in capital assets net of related debt, restricted and unrestricted net assets).

The following table presents current year data, as well as the prior year data for comparative analysis.

<b>Condensed Statement of Net Assets</b>	<u>2006</u>	<u>2005</u>
Assets		
Current and other unrestricted assets	\$ 2,985,302	\$ 3,403,318
Capital Assets	<u>28,743,064</u>	<u>26,703,856</u>
Total Assets	<u>31,728,366</u>	<u>30,107,174</u>
Liabilities		
Long-term liabilities outstanding	2,539,844	2,206,410
Other liabilities	<u>384,699</u>	<u>519,822</u>
Total Liabilities	<u>2,924,543</u>	<u>2,726,232</u>
Net Assets		
Invested in capital assets	26,302,809	24,593,954
Restricted	796,550	857,645
Unrestricted	<u>1,704,464</u>	<u>1,929,343</u>
Total Net Assets	<u>\$ 28,803,823</u>	<u>\$ 27,380,942</u>
<b>Condensed Statement of Activities</b>		
Revenues		
Intergovernmental -		
Federal Sources	\$ 759,435	\$ 913,432
State Sources	2,877,316	2,730,591
Other Sources	1,017,590	927,308
Charges for Services	273,249	294,945
Other	<u>254,686</u>	<u>223,238</u>
	<u>5,182,276</u>	<u>5,089,514</u>
Expenses		
Maintenance	2,234,912	2,335,475
Administration	370,201	385,817
Equipment - net	( 527,819)	( 564,947)
Depreciation	1,555,726	1,439,194
Interest and Other	<u>126,375</u>	<u>143,501</u>
	<u>3,759,395</u>	<u>3,739,040</u>
Change in Net Assets	<u>\$ 1,422,881</u>	<u>\$ 1,350,474</u>

## Financial Analysis of Fund Statements

As noted earlier, the focus of the fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, the Road Commission reported an ending fund balance of \$2,568,197, which was the result of \$225,629 in revenues under expenditures for 2006. \$815,259 of the fund balance has been reserved for expenditures related to primary and local roads and forest funds as required by the Michigan Department of Transportation. \$1,180,266 of the fund balance has been designated by the Board of County Road Commissioners for specific purposes. The remaining \$572,672 of fund balance is unreserved and is available for spending at the Road Commission's discretion. See Notes 16 and 17 to the financial statements for further detail.

## BUDGETARY HIGHLIGHTS

The final amended budget changed from the original budget primarily resulting from a reduction in anticipated federal revenue. Actual revenues were \$271,464 less than anticipated. Expenditures were \$279,109 less than anticipated. The difference in total expenditures was not attributable to a specific function but was basically uniform throughout.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets** - The Road Commission had \$28,743,064 in capital assets at the end of the year. The reason for the increase from the previous year was the capitalization of the preservation-structural improvements to roads and bridges funded by federal, state and local revenues. A summary of capital assets net of accumulated depreciation at December 31, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Land and Land Improvements	\$ 15,306,172	\$ 14,813,222
Depletable Assets	10,775	10,084
Buildings and Improvements	1,421,754	1,458,232
Equipment - Road	1,693,124	1,072,426
Equipment - Other	20,642	26,708
Infrastructure	<u>10,290,597</u>	<u>9,323,184</u>
Total Capital Assets	<u>\$ 28,743,064</u>	<u>\$ 26,703,856</u>

Additional information on the Road Commission's Capital Assets may be found in Note 7 to the financial statements.

**Long-Term Liabilities** - At the end of the current year, the Road Commission had total MTF note debt and MTHF Bonds outstanding of \$1,660,000. The debt is backed by the full faith and credit of Mackinac County. Additional information on the Road Commission's long-term liabilities may be found in Note 8 to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Road Commission's major revenue streams are declining, while others are somewhat stable. The anticipated decline in MTF revenue again in 2007 is due to more efficient and alternative fueled vehicles, modification trailer licensing changes, and lower usage due to high fuel costs. Long-term state fiscal crises are also affecting the local abilities to provide increased levels of maintenance, and are also affecting cost sharing programs currently in effect with township transportation partners.



Our 2007 budget is programmed for revenues that are decreased in most areas. Expenditures will exceed revenues during the year with a planned reduction of available operating funds. It is anticipated our fund equity during 2007 will reduce by \$93,727 due to replacement of much needed equipment to operate more efficiently.

#### **CONTACTING THE ROAD COMMISSION MANAGEMENT**

This financial report is designated to provide a general overview of the Mackinac County Road Commission's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Mackinac County Road Commission, 706 North State Street, St. Ignace, Michigan, 47981.

## **BASIC FINANCIAL STATEMENTS**

**MACKINAC COUNTY ROAD COMMISSION**  
**A Component Unit of Mackinac County, Michigan**

**GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2006**

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 1,191,049	\$ -	\$ 1,191,049
Due from other governmental units -			
Federal	4,903	-	4,903
State	451,843	-	451,843
Local	351,001	-	351,001
Accounts receivable	47,624	-	47,624
Prepaid expenditures/expenses	-	70,469	70,469
Inventory	868,413	-	868,413
Capital assets, net of accumulated depreciation			
Assets not being depreciated	-	15,306,172	15,306,172
Assets being depreciated	-	13,436,892	13,436,892
Total Assets	<u>\$ 2,914,833</u>	<u>\$ 28,813,533</u>	<u>\$ 31,728,366</u>

**LIABILITIES AND FUND EQUITY**

**Liabilities:**

Accounts payable	\$ 93,347	\$ -	\$ 93,347
Accrued liabilities	63,180	-	63,180
Accrued interest payable	-	26,212	26,212
Due to other governmental units	-	-	-
Advances and deposits	149,360	-	149,360
Deferred revenue	40,749	( 40,749)	-
Noncurrent Liabilities:			
Due within one year	-	219,069	219,069
Due in more than one year	-	2,373,375	2,373,375
Total Liabilities	<u>346,636</u>	<u>2,577,907</u>	<u>2,924,543</u>

**Fund Balance:**

Fund Balance -			
Reserved -			
Primary Roads/ Forest Funds	711,343	( 711,343)	-
Local Roads	103,916	( 103,916)	-
Unreserved -			
Designated	1,180,266	( 1,180,266)	-
Undesignated	572,672	( 572,672)	-
Total Fund Balance	<u>2,568,197</u>	<u>( 2,568,197)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 2,914,833</u>		

**Net Assets:**

Invested in capital assets net of related debt		26,302,809	26,302,809
Restricted -			
Primary/Local Roads/Forest Funds		815,259	815,259
Unrestricted		1,685,755	1,685,755
Total Net Assets		<u>\$ 28,803,823</u>	<u>\$ 28,803,823</u>

**MACKINAC ROAD COMMISSION**  
**A Component Unit of Mackinac County, Michigan**

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Governmental Fund	Adjustments (Note 2)	Statement of Activities
<b>Revenues:</b>			
Permits	\$ 23,308	\$ -	\$ 23,308
Intergovernmental -			
Federal sources	533,835	-	533,835
State sources	3,102,916	-	3,102,916
Local sources	1,017,590	-	1,017,590
Charges for services	282,399	-	282,399
Interest and rents	46,902	-	46,902
Other	81,299	963	82,262
Total Revenues	<u>5,088,249</u>	<u>963</u>	<u>5,089,212</u>
<b>Other Financing Sources:</b>			
County appropriation	102,214	-	102,214
Installment note proceeds	809,802	( 809,802)	-
	<u>912,016</u>	<u>( 809,802)</u>	<u>102,214</u>
Total Revenues and Other Sources	<u>6,000,265</u>	<u>( 808,839)</u>	<u>5,191,426</u>
<b>Expenditures/Expenses:</b>			
Current -			
Primary preservation - structural improvements	959,807	( 959,807)	-
Local preservation - structural improvements	1,429,089	( 1,429,089)	-
Primary maintenance	1,125,752	7,828	1,133,580
Local maintenance	845,704	4,404	850,108
State maintenance	260,374	-	260,374
Administrative	346,106	24,094	370,200
Other	9,374	-	9,374
Equipment operation	1,812,920	( 618,036)	1,194,884
Less equipment rental			
charged to other activities	( 1,722,702)	-	( 1,722,702)
Depreciation	-	1,555,726	1,555,726
Capital Outlay	1,206,512	( 1,206,512)	-
Less: depreciation credit			
and retirements	( 641,916)	641,916	-
Debt Service -			
Principal	488,599	( 488,599)	-
Interest	106,275	10,726	117,001
Total Expenditures/Expenses	<u>6,225,894</u>	<u>( 2,457,349)</u>	<u>3,768,545</u>
Excess of revenues over (under) expenditures/expenses	( 225,629)	1,648,510	1,422,881
Fund Balance/Net Assets at January 1, 2006	<u>2,793,826</u>	<u>24,587,116</u>	<u>27,380,942</u>
Fund Balance/Net Assets at December 31, 2006	<u><u>\$ 2,568,197</u></u>	<u><u>\$ 26,235,626</u></u>	<u><u>\$ 28,803,823</u></u>

See Notes to Financial Statements

**MACKINAC COUNTY ROAD COMMISSION**  
**A Component Unit of Mackinac County, Michigan**

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Permits	\$ 10,000	\$ 10,000	\$ 23,308	\$ 13,308
Intergovernmental -				
Federal sources	4,595,370	639,370	533,835	( 105,535)
State sources	2,949,322	3,249,322	3,102,916	( 146,406)
Local sources	793,613	973,603	1,017,590	43,987
Charges for services	288,734	310,734	282,399	( 28,335)
Interest and rents	38,000	45,200	46,902	1,702
Other	15,000	85,500	81,299	( 4,201)
Total Revenues	<u>8,690,039</u>	<u>5,313,729</u>	<u>5,088,249</u>	<u>( 225,480)</u>
Other Financing Sources:				
County appropriation	108,000	108,000	102,214	( 5,786)
Installment note proceeds	850,000	850,000	809,802	( 40,198)
	<u>958,000</u>	<u>958,000</u>	<u>912,016</u>	<u>( 45,984)</u>
Total Revenues and Other Sources	<u>9,648,039</u>	<u>6,271,729</u>	<u>6,000,265</u>	<u>( 271,464)</u>
<b>Expenditures:</b>				
Current -				
Primary preservation - structural improvements	5,112,225	1,020,724	959,807	60,917
Local preservation - structural improvements	1,206,259	1,456,259	1,429,089	27,170
Primary maintenance	1,162,493	1,132,493	1,125,752	6,741
Local maintenance	701,953	850,954	845,704	5,250
State maintenance	279,584	279,584	260,374	19,210
Administrative-net	374,994	366,994	346,106	20,888
Equipment - net	2,501	91,001	90,218	783
Other	8,000	10,000	9,374	626
Capital Outlay - net	343,000	700,000	564,596	135,404
Debt Service	561,994	596,994	594,874	2,120
Total Expenditures	<u>9,753,003</u>	<u>6,505,003</u>	<u>6,225,894</u>	<u>279,109</u>
Excess of revenues and other sources over (under) expenditures	( 104,964)	( 233,274)	( 225,629)	7,645
Fund Balance at January 1, 2006	<u>2,793,826</u>	<u>2,793,826</u>	<u>2,793,826</u>	<u>-</u>
Fund Balance at December 31, 2006	<u>\$ 2,688,862</u>	<u>\$ 2,560,552</u>	<u>\$ 2,568,197</u>	<u>\$ 7,645</u>

See Notes to Financial Statements

**MACKINAC COUNTY ROAD COMMISSION**  
**A Component Unit of Mackinac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting methods and procedures adopted by the Mackinac County Road Commission conform to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to the Financial Statements are an integral part of the Road Commission's basic financial statements.

**A. Description of Road Commission Operations –**

The Mackinac County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Mackinac, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, Federal Financial Assistance, reimbursements from the Department of State Highways for work performed by the County on State trunklines and contributions from other local units of government for work performed by the Road Commission workforce. The Road Fund is the only fund of the Road Commission.

The Road Commission, which is established pursuant to the County Road Law (MCL224.1), operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides service to eleven (11) Townships in Mackinac County and maintains 649 miles of state, local and primary roads.

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –**

The government-wide financial statement columns (i.e. statement of net assets and statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**C. Assets, Liabilities, and Fund Balance or Net Assets –**

**Cash and Cash Equivalents** - Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase.

**Inventories** - Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost.

**MACKINAC COUNTY ROAD COMMISSION**  
**A Component Unit of Mackinac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):**

**Prepaid Items** - Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

**Capital Assets** - Capital assets, which include property, plant, equipment and infrastructure are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets estimated useful life in excess of 2 years. Road equipment is capitalized as defined by the Michigan Department of Transportation without consideration of a minimum cost. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized. Capital assets are recorded in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other capital assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	5-8 years
Roads	8-30 years
Bridges	25-50 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways and bridges which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource.

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditures accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):**

**Advances From The State Of Michigan** - The State of Michigan advances funds on a State maintenance agreement it has with the Mackinac County Road Commission for specified maintenance, which the Road Commission will perform during the year, and for equipment purchases. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

**Accrued Vacation And Sick** - In accordance with contracts negotiated with the various employee groups of the Road Commission, individual employees have a vested right upon termination of employment to receive payments for unused sick leave and vacation under formulas and conditions specified in the contracts. All amounts vested are accrued in the government-wide statements (statement of net assets).

**Deferred Revenues** - In both the government-wide and the fund financial statements revenue received or recorded before earned is recorded as deferred revenue. In addition, in the governmental fund statements revenues that are not both measurable and available are recorded as deferred revenues.

**Long-Term Obligations** - In the government-wide financial statements (statement of net assets), long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums discounts, and issuance costs on a prospective basis.

**Equipment Rental** - The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be charged (allocated) to the various activities. The effect of this allocation is offset to equipment expenditures/expenses.

**Estimates** - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



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**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:**

- A.** Explanation of differences between the governmental fund statement and the government-wide statement of net assets (Page 7).

Fund Balance – governmental fund	\$ 2,568,197
Capital assets used in the governmental fund activities that are not financial resources and therefore not reported in the governmental fund financial statements	
Add – capital assets	40,515,824
Deduct – accumulated depreciation	( 11,772,760)
Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements	( 2,592,444)
Accrued interest payable on long-term liabilities not reported in the governmental fund statements	( 26,212)
Prepaid expenses not reported in the governmental fund statements	70,469
Revenues that have been deferred to the government fund statement because they are not “available”	<u>40,749</u>
Net Assets	<u>\$ 28,803,823</u>

- B.** Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities (Page 8).

Excess of revenues under expenditures - governmental fund statement	\$ ( 225,629)
The governmental fund statements report capital outlay as Expenditures; however, in the government-wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense	
Add – capital outlay and infrastructure	3,595,408
Deduct – depreciation and retirements	( 1,556,200)
Revenues are deferred in the governmental fund statements because they do not provide current financial resources; however, are reported in the government-wide Statement of Activities	963
Loan proceeds reported as another financing source in the Governmental fund statements, but not in the government-wide Statements where it is reported as long-term liability	( 809,802)
Interest expense adjustment for accrual reported in the government-wide Statement of Activities when the liability is incurred and reported in the governmental fund statements only when payment is due	( 10,726)
Insurance Expenses for claims incurred but not reported are accrued in the government-wide Statement of Activities; however, they are reported in the governmental fund statements only when payment is due.	( 52,600)

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**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – (cont’d):**

Principal payments on long-term liabilities are reported as an expenditure in the governmental fund statements, but not in the government-wide Statement of Activities (where it reduces the long-term liability)	\$ 488,599
Prepaid expense adjustment not reported in the governmental fund statements	5,100
Accrued vacation and sick time expenses not reported in the governmental fund statements because they will not be paid with current financial resources	( 12,232)
Change in Net Assets	\$ <u>1,422,881</u>

**NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

**Auditing and Reporting –**

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States as described in the Independent Auditor's Report, but, also with the standards as provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws.

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor's Report, but also with applicable rules of the Michigan State Department of Transportation.

**Budgetary Compliance –**

The Road Commission Manager prepares from data submitted by the administrative staff, a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.

Prior to December 31, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioners Resolution.

The Road Commission's approved budget was adopted at the activity level. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act since amendments to the budget at the activity level must be approved by the Board of County Road Commissioners. The Road Commission does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

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**NOTE 4 – DEPOSITS AND INVESTMENTS:**

As of December 31, 2006, the carrying amount of deposits and investments is as follows:

Cash on Hand	
Petty Cash	\$ 150
Deposits with Financial Institutions	
Imprest Checking	4,000
Savings maintained by County Treasurer	303,923
Certificates of deposit maintained by County Treasurer	<u>882,976</u>
	<u>\$ 1,191,049</u>

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Mackinac County Treasurer's Office, and in order to make disbursements, the Mackinac County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll investment trust sweep account with vendor or payroll checking account. The investing of cash is performed by the County Treasurer.

As a component unit of Mackinac County, all Road Commission cash and cash equivalents are a part of the accounts maintained by Mackinac County at banking institutions insured by federal depository insurance. However, the Road Commission by state statute has funds allocated to it by the State of Michigan for its exclusive use and control. As a result, funds of the Road Commission have separate insurance coverage.

***Custodial Credit Risk – Deposits-*** is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. Michigan Public Acts authorize Road Commissions to deposit into the accounts of federally insured banks, insured credit unions, and savings and loan associations with an office in Michigan. The Road Commission's investment policy does not have a custodial credit risk requirement.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

The Road Commission's deposits consist of demand accounts, savings accounts and certificates of deposit. At December 31, 2006, the carrying amount of the Road Commission's deposits is \$1,190,899, and the bank balance is \$1,324,120, of which \$200,000 is FDIC insured, and the remaining \$1,124,120 is exposed to credit risk since it is uninsured and uncollateralized.

The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution and assesses the level of risk. The County uses only those financial institutions with an acceptable estimated risk level as depositories.

**NOTE 5 – INVENTORIES:**

The Inventory balance of \$868,413 at December 31, 2006 consisted of \$784,032 of road materials and \$84,381 of equipment parts and materials.

**MACKINAC COUNTY ROAD COMMISSION**  
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**NOTE 6 – FEDERAL AWARDS:**

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended December 31, 2006, the Road Commission of Mackinac County had less than \$500,000 of force account expenditures applicable to federal awards (local force revenue). As a result, an audit for compliance under the Single Audit Act has not been performed.

The federal revenues of \$759,435 represents the Department of Transportation Federal Highway grant money of \$705,793 expended on public road improvement projects which were administered by the Michigan Department of Transportation; however, required to be reported by the Road Commission and \$53,642 of Federal Forest Highway money.

**NOTE 7 – CAPITAL ASSETS:**

Capital assets activity for the current year was as follows:

	Balance January 1, 2006	Additions	Deletions	Removals/ Adjustments	Balance December 31, 2006
Capital Assets, not being depreciated –					
Land	\$ 282,472	\$ -	\$ -	\$ (14,250)	\$ 268,222
Land Improvements	14,530,750	538,215	-	(31,015)	15,037,950
Total Capital Assets, not being depreciated	14,813,222	538,215	-	(45,265)	15,306,172
Capital Assets, being depreciated –					
Buildings and Improvements	1,640,367	-	-	-	1,640,367
Road Equipment	5,137,154	1,202,962	386,374	-	5,953,742
Shop Equipment	20,706	1,141	-	-	21,847
Office Equipment	96,262	828	27,331	-	69,759
Engineering Equipment	19,947	1,581	-	-	21,528
Infrastructure -					
Roads	12,997,200	1,239,087	-	(460,543)	13,775,744
Bridges	3,066,716	611,594	-	6,527	3,684,837
Depletable assets	27,578	-	-	14,250	41,828
	23,005,930	3,057,193	413,705	(439,766)	25,209,652

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**NOTE 7 – CAPITAL ASSETS – (cont'd):**

	Balance January 1, 2006	Additions	Deletions	Removals/ Adjustments	Balance December 31, 2006
Less – accumulated depreciation for –					
Buildings	\$ 182,135	\$ 36,478	\$ -	\$ -	\$ 218,613
Road Equipment	4,064,728	581,938	386,048	-	4,260,618
Shop Equipment	17,759	911	-	-	18,670
Office Equipment	81,532	6,049	27,183	-	60,398
Engineering Equipment	10,916	2,508	-	-	13,424
Infrastructure –					
Roads	5,217,092	843,606	-	( 453,268)	5,607,430
Bridges	1,523,640	70,677	-	( 31,763)	1,562,554
Depletable Assets	17,494	13,559	-	-	31,053
	<u>11,115,296</u>	<u>1,555,726</u>	<u>413,231</u>	<u>( 485,031)</u>	<u>11,772,760</u>
Total Capital Assets, being depreciated, net	<u>11,890,634</u>	<u>1,501,467</u>	<u>474</u>	<u>45,265</u>	<u>13,436,892</u>
Governmental activity capital assets net	<u>\$ 26,703,856</u>	<u>\$ 2,039,682</u>	<u>\$ 474</u>	<u>\$ -</u>	<u>\$ 28,743,064</u>

Total depreciation for the year ended December 31, 2006 was \$1,555,726.

**NOTE 8 – LONG-TERM LIABILITIES:**

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended December 31, 2006:

	Balance Jan. 1, 2006	Additions	Deletions	Balance Dec. 31, 2006	Due Within One Year
Installment Notes -					
Equipment 2001	\$ 25,714	\$ -	\$ 25,714	\$ -	\$ -
Equipment 2002	61,061	-	61,061	-	-
Equipment 2005	9,500	-	9,500	-	-
Equipment 2006	<u>809,802</u>	<u>809,802</u>	<u>32,641</u>	<u>777,161</u>	<u>75,740</u>
	<u>96,275</u>	<u>809,802</u>	<u>128,916</u>	<u>777,161</u>	<u>75,740</u>
Bonds and Notes Payable -					
Bank Note	279,000	-	279,000	-	-
MTF Bonds 2001	865,000	-	35,000	830,000	40,000
MTF Bonds 2001A	<u>865,000</u>	<u>-</u>	<u>35,000</u>	<u>830,000</u>	<u>40,000</u>
	<u>2,009,000</u>	<u>-</u>	<u>349,000</u>	<u>1,660,000</u>	<u>80,000</u>
Other Liabilities -					
Accrued sick and vacation	69,057	12,232	-	81,289	-
MDOT settlement	27,450	-	9,150	18,300	9,150
Capital lease 2004	4,627	-	1,533	3,094	1,579
Self Insurance	<u>-</u>	<u>52,600</u>	<u>-</u>	<u>52,600</u>	<u>52,600</u>
	<u>101,134</u>	<u>64,832</u>	<u>10,683</u>	<u>155,283</u>	<u>63,329</u>
Total	<u>\$ 2,206,409</u>	<u>\$ 822,034</u>	<u>\$ 488,599</u>	<u>\$ 2,539,844</u>	<u>\$ 219,069</u>

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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 8 – LONG-TERM LIABILITIES – (cont'd):**

Significant details regarding outstanding long-term liabilities are presented below:

**Installment Notes -**

In December 2001, the Road Commission borrowed \$119,342 for the purchase of an excavator. The note was payable monthly in the amount of \$2,217 including interest of 4.3516 percent annually until December 28, 2006.

In February 2002, the Road Commission borrowed \$242,966 for the purchase of two loaders. The note was payable monthly in the amount of \$4,503 including interest of 4.246 percent annually until February of 2007; however, the Road Commission paid the remaining balance in full during 2006.

In May 2005, the Road Commission borrowed \$28,500 for the purchase of a V-Bottom Trailer. The note was payable monthly in the amount of \$2,500, commencing June 5, 2005 through March 5, 2006, with the balance of \$2,000 due April 5, 2006.

In January 2006, the Road Commission borrowed \$93,892 for the purchase of a tractor and compactor. The note is payable in monthly installments until January 2011 in the amount of \$4,427. The balance at December 31, 2006 is \$78,039.

In August 2006, the Road Commission borrowed \$428,104 for the purchase of equipment related to the five dump trucks purchased in August 2006. The note is payable in monthly installments until August 2016 in the amount of \$3,079. The balance at December 31, 2006 is \$411,316.

In December 2006, the Road Commission borrowed \$287,806 for the purchase of equipment related to the five dump trucks purchased in August 2006. The note is payable in monthly installments until August 2016 in the amount of \$3,079. The balance at December 31, 2006 is \$287,806.

The annual requirements to amortize the installment notes liability outstanding at December 31, 2006 are as follows:

Year Ending December 31,	Installment Notes 2006	
	Principal	Interest
2007	\$ 75,740	\$ 32,120
2008	81,224	29,716
2009	84,875	26,065
2010	88,689	22,250
2011	73,197	18,605
2012-2016	<u>373,436</u>	<u>41,409</u>
	<u>\$ 777,161</u>	<u>\$ 170,165</u>

**MTF Note - Series 2003 -**

The County of Mackinac, Michigan issued a Michigan Transportation Fund Reserve Note for \$500,000, of which \$320,000 was drawn on June 5, 2003, and \$180,000 was drawn on August 3, 2005. The note was issued under and in full compliance with the constitution and statutes of the State of Michigan, including specifically Act 143, Public Acts of Michigan, 1943 as amended. The note is issued in anticipation of and is payable from money derived from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and construction and work incidental thereto pursuant to Act 143.

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**NOTE 8 – LONG-TERM LIABILITIES – (cont'd):**

The final Principal payment on the note was due and paid on October 1, 2006, with interest at a rate of 3.35 percent per annum.

**MTF Bonds –**

The County of Mackinac, Michigan issued \$995,000 of Michigan Transportation Fund Bonds, Series 2001, dated July 11, 2001 pursuant to the provision of Act 202, Public Acts of Michigan of 1943, as amended. The Bonds are issued in anticipation of and are payable from monies derived from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and construction and work incidental thereto pursuant to Act 202. The proceeds from the bonds were for the construction, improvement and repair of various roads in Mackinac County and to purchase equipment, which is necessary and incidental thereto.

Principal on the bonds is due on July 1, 2007 through 2021 with interest due semi-annually on January 1 and July 1 at interest rates ranging from 4.1% to 5.55%.

The County of Mackinac, Michigan issued \$995,000 of Michigan Transportation Fund Bonds, Series 2001A, dated June 12, 2001 pursuant to the provision of Act 202 Public Acts of Michigan 1943, as amended. The bonds are issued in anticipation of and are payable from money derived from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and construction and work incidental thereto pursuant to Act 202. The proceeds from the bonds were for the construction, improvement, and repair of various roads in Mackinac County and to construct a garage, which is necessary and incidental thereto.

Principal on the bonds is due on June 1, 2007 through 2021 with interest due semi-annually on June 1 and December 1 at interest rates ranging from 4.1% to 5.25%.

As additional security for the payment of the principal of and interest on both Bond issues, in the event and to the extent that Michigan Transportation Fund money is not sufficient to pay such principal and interest, the County is obligated to advance from its general fund money sufficient to pay such principal and interest. The County does not have the power to levy taxes to pay principal of and interest on the bonds over and above its authorized tax rate established pursuant to law. To the extent such an advance is made from the County's general fund, the general fund shall be reimbursed from the first subsequent revenues received by the Road Commission from Michigan Transportation Fund money not pledged or required to be set aside and used for the payment of bonds or notes of other evidence of indebtedness.

The MTF Series 2001 in 2007 through 2011 shall not be subject to redemption prior to maturity. Bonds maturing on or after July 1, 2012 shall be subject to redemption prior to maturity at the option of the County, in such order as shall be determined by the County, on any one or more interest payment dates on or after July 1, 2011. Bonds of a denomination greater than \$50,000 may be partially redeemed in the amount of \$5,000 or any integral multiple thereof. If less than all of the Bonds maturing in any year are to be redeemed, the Bonds or portions of bonds to be redeemed shall be selected by lot. The redemption price shall be the par value of the bonds or portion of the bonds called to be redeemed plus interest to the date fixed for redemption.

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**NOTE 8 – LONG-TERM LIABILITIES – (cont'd):**

The MTF Series 2001A in 2007 through 2011 shall not be subject to redemption prior to maturity. Bonds maturing on or after June 1, 2012 shall be subject to redemption prior to maturity at the option of the County, in such order as shall be determined by the County, on any note or more interest payment dates on or after June 1, 2011. Bonds of a denomination greater than \$50,000 may be partially redeemed in the amount of \$5,000 or any integral multiple thereof. If less than all of the Bonds maturing in any year are to be redeemed, the Bonds or portions of bonds to be redeemed shall be selected by lot. The redemption price shall be the par value of the bonds or portion of the bonds called to be redeemed plus interest to the date fixed for redemption.

The annual requirements to amortize the bonds outstanding at December 31, 2006, including interest payments, are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>MTF Bonds</u> <u>Series 2001</u>		<u>MTF Bond</u> <u>Series 2001A</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 40,000	\$ 43,060	\$ 40,000	\$ 39,828
2008	40,000	41,260	40,000	38,168
2009	40,000	39,420	40,000	36,456
2010	45,000	37,540	45,000	32,561
2011-2021	<u>665,000</u>	<u>235,571</u>	<u>665,000</u>	<u>209,390</u>
	<u>\$ 830,000</u>	<u>\$ 396,761</u>	<u>\$ 830,000</u>	<u>\$ 356,403</u>

**Accrued Sick and Vacation -**

In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated vacation and sick leave under formulas and conditions specified in the contracts. Union Employees are compensated 100%, up to a maximum of 240 hours, of their vested vacation leave upon termination for any reason. Administrative employees are compensated 100%, up to a maximum of 240 hours of their vested vacation leave upon termination for any reason. In addition, they are compensated 50% of their vested vacation leave in excess of 240 hours upon termination for any reason. Sick leave vests upon death or retirement limited to 50% of their total accumulated sick time, up to a maximum of 1200 hours. The dollar amount of these vested rights, which have been accrued on the financial statements in the Long-Term Debt Account Group, amounts to approximately \$81,289 for sick and vacation at December 31, 2006.

**MDOT Settlement -**

The Michigan Department of Transportation audited the Road Commission's Trunkline Maintenance contracts for the periods October 1, 1998 through September 30, 2003. As a result of the audits, an agreement was made for \$36,600 to be repaid to MDOT over four years effective March 1, 2005 through March 1, 2008. The balance at December 31, 2006 is \$18,300.

**Capital Lease -**

The Road Commission is obligated for a capital lease agreement to finance the acquisition of a copy machine. The minimum annual payments for the capital lease are summarized in Note 9.



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**NOTE 9 – CAPITAL LEASE:**

In 2004, the Road Commission entered into a lease purchase agreement to finance the acquisition of a copy machine with capitalized costs totaling \$6,643. This lease agreement qualifies as a capital lease for accounting purposes (the agreement provides for either title transfer or a bargain purchase option at the end of the lease terms); therefore, it has been recorded at the present value of future minimum lease payments as of the date of inception.

The following is a schedule of future minimum lease payments, together with the present value of the minimum lease payments as of December 31, 2006:

<u>Year Ending</u> <u>December 31,</u>	
2007	\$ 1,861
2008	1,862
2009	<u>200</u>
	3,293
Amount representing interest	<u>( 829)</u>
Present value of minimum lease payments	<u>\$ 3,094</u>

**NOTE 10 – EMPLOYEE PENSION PLAN:**

**Plan Description -**

The Mackinac County Road Commission participates in the Michigan Municipal Employees Retirement System (MERS); a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

**Funding Policy -**

The plan adopted by the Board of County Road Commissioners requires general employees to contribute 4.36% of their annual compensation with 0% to 2% required for salaried and supervisory employees. The Road Commission is required to contribute at an actuarially determined rate; the weighted average rate for 2006 was 23.26% for general employees, 29.94% for salaried employees. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

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**NOTE 10 – EMPLOYEE PENSION PLAN – (cont'd):**

**Annual Pension Costs -**

For the year ended December 31, 2006, the Road Commission's annual pension cost of \$223,711 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years for positive unfunded liabilities and 10 years for negative unfunded liabilities.

**Three-Year Trend Information**

<u>Fiscal Year</u> <u>Ending</u> <u>December 31,</u>	<u>Annual Pension</u> <u>Costs (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contribution</u>	<u>Net Pension</u> <u>Obligation</u>
2004	\$ 219,113	100%	-
2005	220,345	100	-
2006	223,711	100	-

**Schedule of Funding Progress**

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL) Entry Age</u> <u>(b)</u>	<u>Unfunded</u> <u>(Overfunded)</u> <u>Accrued Liability</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>(AAL)</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL</u> <u>as a % of</u> <u>Covered Payroll</u> <u>[(b-a)/c]</u>
2003	3,210,430	5,293,620	2,083,190	61	833,963	249
2004	3,393,555	5,687,076	2,293,521	60	868,595	264
2005	3,590,890	5,795,076	2,204,186	62	866,581	254

**NOTE 11 – POSTEMPLOYMENT BENEFITS:**

In addition to the pension benefits described in Note 8, the Mackinac County Road Commission provides postemployment health care to eligible employees who retire from the Road Commission on or after attaining retirement age with at least six years vesting with MERS for service. Expenditures for post-retirement health care benefits are recognized on a pay-as-you-go basis. For the year ended December 31, 2006, these costs amounted to approximately \$51,974 with four eligible participants.

**MACKINAC COUNTY ROAD COMMISSION**  
**A Component Unit of Mackinac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 12 – ADVANCES AND DEPOSITS:**

Advances and Deposits of \$149,360 at December 31, 2006, represent money advanced by the State of Michigan under the maintenance contract the Road Commission has with the State for working capital and equipment purchases, advances and deposits from Townships, contractors and individuals for various projects. The State advance is adjusted annually by the State, and must be repaid if the maintenance contract is cancelled. The following is a summary of the balance by source and use:

State -	
Trunkline maintenance	\$ 19,861
Equipment	<u>101,758</u>
	<u>121,619</u>
Local -	
Township advances	309
Contractors and individuals	<u>27,432</u>
	<u>27,741</u>
	<u>\$ 149,360</u>

**NOTE 13 – SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:**

In the normal course of its operations, the Mackinac County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

Also, as part of its trunkline maintenance agreement with the State of Michigan, the Road Commission's costs charged to the State are subject to audit. The amounts, if any, which may have to be paid back to the State cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

**NOTE 14 – RISK MANAGEMENT:**

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan, which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

**MACKINAC COUNTY ROAD COMMISSION**  
**A Component Unit of Mackinac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 14 – RISK MANAGEMENT – (cont’d):**

The Mackinac County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also a member of the County Road Association Self-Insurance Fund for workers' compensation self-insurance. The fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the fund.

The Road Commission is self-insured for health care benefits. The health insurance company performs the administrative services for the self-insured program. The Road Commission makes monthly payments based on estimated claims and a stop-loss provision, which are adjusted quarterly.

The Road Commission had estimated accrued health care claims in excess of the last quarter payments, including an estimate for claims incurred by not reported (IBNR) of \$52,600 at December 31, 2006, which has been accrued on the Statement of Net Assets.

**NOTE 15 – EQUIPMENT OPERATIONS EXPENDITURE/EXPENSE BALANCE:**

The Road Commission, in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions, charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as an expenditure in the various maintenance activities. An expenditure credit is reported as an offset against the equipment expenditure activities. Accordingly, the equipment rental does not affect total expenditures or the available operating equity of the Road Commission's General Operating Fund. The balance for the year ended December 31, 2006 is as follows:

	<u>Governmental Fund</u>	<u>Statement of Activities</u>
Equipment -		
Direct	\$ 1,071,442	\$ 489,503
Indirect	429,374	393,276
Operating	<u>312,104</u>	<u>312,104</u>
	1,812,920	1,194,883
Less - equipment rental	( <u>1,722,702</u> )	( <u>1,722,702</u> )
	<u>\$ 90,218</u>	<u>\$ ( 527,819 )</u>

**MACKINAC COUNTY ROAD COMMISSION**  
**A Component Unit of Mackinac County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 16 – FUND BALANCE – DESIGNATED:**

The Road Commission fund balance at December 31, 2006 had been designated as follows:

Sick and vacation pay out for employees retiring	\$ 61,079
Building fund	30,000
Equipment purchases	488,135
Emergency contingency	<u>601,112</u>
	<u>\$ 1,180,266</u>

**NOTE 17 – FUND BALANCE – RESERVED/NET ASSETS – RESTRICTED:**

The Road Commission has fund balance reserved/net assets restricted at December 31, 2006 as follows:

Primary Roads (including forest funds of \$103,218)	\$ 711,343
Local Roads	<u>103,916</u>
	<u>\$ 815,259</u>

## **SUPPLEMENTARY INFORMATION**

**MACKINAC COUNTY ROAD COMMISSION**  
**A Component Unit of Mackinac County, Michigan**

**DETAIL SCHEDULE OF REVENUES**  
**GENERAL OPERATING FUND**  
**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>Revenues:</b>		
Licenses and permits	\$ 23,308	\$ 30,874
Federal Sources -		
D Funds	-	260,693
STP funds	480,193	399,931
National Forest	53,642	252,808
	<u>533,835</u>	<u>913,432</u>
State Sources -		
Motor Vehicle Highway Funds - Act 51 -		
Engineering	10,000	10,000
Primary roads	1,482,387	1,494,988
Local roads	730,164	734,133
Snow removal	103,383	108,003
State Critical Bridge	502,428	-
Federal Aid Funds Sold to State	225,600	-
Economic Development Fund	48,954	696,626
	<u>3,102,916</u>	<u>3,043,750</u>
Local Sources -		
City and Village	-	5,113
Township contributions	1,017,590	922,195
	<u>1,017,590</u>	<u>927,308</u>
Charges for Services -		
Trunkline maintenance	254,966	255,335
Trunkline Non- maintenance	5,386	36,246
Salvage sales	22,047	3,364
	<u>282,399</u>	<u>294,945</u>
Interest and rents	<u>46,902</u>	<u>50,252</u>
Other -		
Sundry Refunds	441	2,197
Gain on disposal of equipment	69,484	20,000
Other	11,374	15,656
	<u>81,299</u>	<u>37,853</u>
Total Revenues	<u>5,088,249</u>	<u>5,298,414</u>
<b>Other Financing Sources:</b>		
County appropriations	102,214	104,259
Installment Purchases/Leases	809,802	218,518
	<u>912,016</u>	<u>322,777</u>
Total Revenues and Other Sources	<u><u>\$ 6,000,265</u></u>	<u><u>\$ 5,621,191</u></u>

**MACKINAC COUNTY ROAD COMMISSION**  
**A Component Unit of Mackinac County, Michigan**

**DETAIL SCHEDULE OF EXPENDITURES**  
**GENERAL OPERATING FUND**  
**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>Expenditures:</b>		
Preservation - structural improvements		
Primary roads, structures and safety projects	\$ 959,807	\$ 1,781,851
Local roads and structures	<u>1,429,089</u>	<u>722,504</u>
	<u>2,388,896</u>	<u>2,504,355</u>
Maintenance -		
Primary roads and structures,		
winter and traffic control	1,125,752	1,220,581
Local roads and structures,		
winter and traffic control	<u>845,704</u>	<u>828,944</u>
	<u>1,971,456</u>	<u>2,049,525</u>
State Maintenance -		
Trunkline maintenance	254,966	249,058
Non-Maintenance	<u>5,408</u>	<u>50,354</u>
	<u>260,374</u>	<u>299,412</u>
Equipment -		
Direct	1,071,442	1,022,687
Indirect	429,374	355,860
Operating	312,104	258,421
Less - equipment rental	<u>( 1,722,702)</u>	<u>( 1,629,054)</u>
	<u>90,218</u>	<u>7,914</u>
Administrative -		
Administration	394,734	430,813
Less - overhead	<u>( 29,919)</u>	<u>( 34,071)</u>
- handling	<u>( 18,709)</u>	<u>-</u>
	<u>346,106</u>	<u>396,742</u>
Other	<u>9,374</u>	<u>20,142</u>
Capital Outlay -		
Land improvements, building		
and equipment	1,206,512	498,235
Less - depreciation/depletion	<u>( 641,916)</u>	<u>( 601,616)</u>
	<u>564,596</u>	<u>( 103,381)</u>
Debt Service -		
Principal retirement	488,599	567,191
Interest	<u>106,275</u>	<u>113,263</u>
	<u>594,874</u>	<u>680,454</u>
Total Expenditures	<u><u>\$ 6,225,894</u></u>	<u><u>\$ 5,855,163</u></u>



**MACKINAC COUNTY ROAD COMMISSION**  
**A Component Unit of Mackinac County, Michigan**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BY FUND BALANCE SUB-ACCOUNTS**  
**GENERAL OPERATING FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	Primary Road Fund	Local Road Fund	County Road Fund	Total
<b>Revenues:</b>				
Licenses and permits	\$ -	\$ -	\$ 23,308	\$ 23,308
Intergovernmental -				
Federal Sources	533,835	-	-	533,835
State Sources	1,832,908	1,270,008	-	3,102,916
Local Sources	-	1,017,590	-	1,017,590
Charges for services	260,352	-	22,047	282,399
Interest and rents	-	-	46,902	46,902
Other	-	-	81,299	81,299
	<u>2,627,095</u>	<u>2,287,598</u>	<u>173,556</u>	<u>5,088,249</u>
<b>Other Financing Sources:</b>				
County appropriation	-	100,000	2,214	102,214
Installment note proceeds	-	-	809,802	809,802
	<u>-</u>	<u>100,000</u>	<u>812,016</u>	<u>912,016</u>
Total Revenues and Other Sources	<u>2,627,095</u>	<u>2,387,598</u>	<u>985,572</u>	<u>6,000,265</u>
<b>Expenditures:</b>				
Preservation - Structural Improvements	959,807	1,429,089	-	2,388,896
Maintenance	1,125,752	845,704	-	1,971,456
State Non-Maintenance	260,374	-	-	260,374
Equipment - net	47,428	33,669	9,121	90,218
Administrative - net	165,511	180,595	-	346,106
Other	-	-	9,374	9,374
Capital outlay - net	-	-	564,596	564,596
Debt principal -				
Principal retirement	9,150	-	479,449	488,599
Interest	-	-	106,275	106,275
Total Expenditures	<u>2,568,022</u>	<u>2,489,057</u>	<u>1,168,815</u>	<u>6,225,894</u>
Excess of revenues and other sources over (under) expenditures before optional transfers	59,073	( 101,459)	( 183,243)	( 225,629)
Optional Transfers	<u>( 111,188)</u>	<u>111,188</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	( 52,115)	9,729	( 183,243)	( 225,629)
Fund balance at January 1, 2006	<u>763,458</u>	<u>94,187</u>	<u>1,936,181</u>	<u>2,793,826</u>
Fund balance at December 31, 2006	<u><u>711,343</u></u>	<u><u>103,916</u></u>	<u><u>1,752,938</u></u>	<u><u>2,568,197</u></u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

To the Board of County Road Commissioners  
of Mackinac County  
St. Ignace, Michigan

We have audited the financial statements of Mackinac County Road Commission as of and for the year ended December 31, 2006, and have issued our report thereon, dated May 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Mackinac County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mackinac County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mackinac County Road Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Mackinac County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Mackinac County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Mackinac County Road Commission's internal control. We consider the deficiency described as follows to be a significant deficiency in internal control over financial reporting:

The Road Commission prepares various financial information to assess operations and the financial condition of the Road Commission including the completion of the MDOT ACT 51 Report at year end. However, that information is not required to be a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Road Commission relies on our firm to assist in reporting the annual financial report in accordance with Generally Accepted Accounting Principles.

The Road Commission has individuals on staff to review and determine that the financial report is accurate, however, has not elected to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Road Commission is considered to have a significant control deficiency, since reporting errors or omissions could occur in the presentation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Road Commission would not be in a position to detect the errors or omissions.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Mackinac County Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mackinac County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

We noted certain matters that we reported to management of the Mackinac County Road Commission in a separate letter dated May 15, 2007.

This report is intended for the information and use of the management and Board of County Road Commissioners of Mackinac County, Michigan and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

May 15, 2007

## MANAGEMENT LETTER

To the County Road Commissioners of  
Mackinac County Road Commission  
St. Ignace, Michigan

We have recently completed our audit of the basic financial statements of the Mackinac County Road Commission as of and for the year ended December 31, 2006. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control and the operational efficiency of the Road Commission's recordkeeping system or compliance with laws and regulations. These observations are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in the ***Report on Internal Accounting Controls*** these observations were not considered significant deficiencies in relation to the basic financial statements of the Road Commission.

### **Adoption of an Investment Policy**

The County Treasurer as the custodian of the Road Commission cash performs the investing under the County Investment policy.

The Michigan Department of Treasury believes that a Road Commission should have its own formal board approved investment policy that documents the Road Commission's policy on acceptable deposit and investment risks. The Road Commission should have the investment policy even with the County Treasurer being responsible for maintaining Road Commission cash.

We recommend that a formal investment policy be adopted by the County Board of Road Commissioners.

### **Controls over Transfer Vouchers**

At the present time, transfer vouchers (journal entries) include a description for the entry and are numbered and maintained in a binder for control purposes. However, not all transfer vouchers are required to be formally approved by a second individual.

Not having a procedure requiring that transfer vouchers be formally approved allows for the possibility of inaccurate financial reporting.

We recommend that the transfer vouchers be approved by an individual that is able to analyze the accompanying information supporting the entry. This may be accomplished by having different individuals reviewing transfer vouchers, or at a minimum, any transfers that are not standard entries.

These observations were considered in determining the nature, timing and extent of the audit tests applied in our audit of the December 31, 2006, financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the information and use of management, the Road Commission Board, others within the Road Commission, and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss these observations with you and to provide assistance in the implementation of improvements.

Sincerely,

A handwritten signature in cursive script, reading "Stewart Beaumont Whipple".

May 15, 2007